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October 22, 2003

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW, Room TWB-204
Washington, DC 20554

Re: International Settlements Policy Reform (IB Docket No. 02-324)
International Settlement Rates (IB Docket No. 96-261)

Dear Ms. Dortch,

On Tuesday, October 21, 2003, Amy Alvarez, Eric Loeb, Charlie Meyers, Jim Talbot and I from AT&T met with Lisa Choi, Gardner Foster, Cara Grayer, Mark Uretsky and Doug Webbink of the of the International Bureau and Joesph Levin of the Wireless Bureau to discuss the above-referenced proceedings.

At this meeting, we reviewed AT&T's recommendations regarding FCC actions that are important for successful reform of the International Settlements Policy. Specifically, we discussed steps the FCC should take in this current proceeding to encourage commercial arrangements for international termination agreements, the importance of continued FCC safeguards against rate increases and whipsaws, and how the 1997 benchmarks are no longer adequate to serve the Commission objective of cost-based rates. We also focused on the large and growing problem of mobile termination rates, and asked the International Bureau to apply existing benchmarks to all traffic terminating on foreign mobile networks.

We presented a "Revised Tariff Component Pricing" model based on current foreign retail tariffs that produces updated cost ceilings for both international fixed and mobile termination rates that are significantly lower than current benchmark levels and demonstrates that those current benchmarks are no longer sufficient to encourage further progress toward cost-based rates. Like the FCC's 1997 Benchmark study, this tariff-based model produces very conservative cost ceiling estimates for termination rates. We also requested the International Bureau to open a Further Notice of Proposed Rulemaking to develop new benchmark rates for fixed and mobile traffic. A copy of the presentation material we used is attached.

One electronic copy of this Notice is being submitted to the Secretary of the FCC in accordance with Section 1.1206 of the Commission's rules.

Sincerely,

copy to:

L. Choi
G. Foster
C. Grayer
J. Levin
M. Uretsky
D. Webbink

International Settlements Policy Reform

ISP Reform Should Encourage Greater Use of Commercial Arrangements with Targeted Safeguards to Prevent Price Increases and Whipsaws

- U.S. carrier successes in negotiating below-benchmark rates on ISR routes show that commercial arrangements not subject to specific ISP requirements for nondiscriminatory rates, proportionate return and equal rates at each end will lead to more cost-based rates
- Lack of competition in most foreign markets requires continued Commission safeguards against rate increases and other foreign market power abuses

The Commission Should Encourage More Rapid Use of Commercial Arrangements at Benchmark Rates

- Simplify the transition to commercial arrangements by removing specific ISP requirements at benchmarks
- No need for an intermediate ISR step
- Remove burdensome 50 percent demonstration
- Remove 43.51 and 64.1001 filing requirements for commercial arrangements
- Allow benchmark showings by agreement or affidavit

Alternative Thresholds for Removal of ISP Would Impede Competition

- ISR threshold would prevent commercial arrangements on non-WTO routes and continue the existing, burdensome ISR authorization process
- Removal of ISP on all routes would encourage abuse of market power by foreign monopolists

ISP Reform Requires Continued Commission Safeguards Against Rate Increases and Whipsaws

- Foreign monopolists control three out of four U.S. international routes
- Over 170 countries without full WTO market-opening commitments
- Alternative termination not ubiquitous and often cannot handle large U.S. traffic volumes
- Potential harm to U.S. consumers from lack of competition in foreign markets, concerted action by foreign carriers and foreign government-mandated rate floors

Necessary Safeguards on All Routes

- Continue existing prohibition on non-cost-based rate increases
- Continue existing prohibition on whipsaws
- Enforcement through a carrier-initiated complaint process
- Expedited complaint procedures to prevent harm to U.S. consumers and carriers
- Continue existing "no special concessions" rule
- Continue 43.61 traffic and revenue reporting

1997 Benchmarks Should be Revised

- Broad support for continuation of benchmarks policy, including by former opponents of benchmarks
- 1997 benchmarks no longer adequately serve the Commission objective of cost-based rates
  - Based on 1996 data
  - U.S. carrier rates to many countries now below 4 cents
  - Average 2001 U.S. settlement rate (14 cents) is below the lowest 1997 benchmark rate
  - 1997 benchmark rates now used to justify requests for rate *increases* (e.g., the Philippines)
- The Commission should issue a FNPRM on new benchmarks

The Commission Should Restrain Rising Foreign Mobile Termination Rates

- Fast-growing problem that threatens to reverse progress toward cost-based rates
- No market constraints or sufficient foreign regulatory action to prevent increases
  - approximately 80 countries now have mobile surcharges
  - no cost justification for these charges
- Foreign mobile carrier claims concerning U.S. carrier surcharges are a red herring
  - Foreign mobile carriers are subject to no competition at all in setting termination rates; U.S. carriers are subject to market forces and must recover their costs in the highly competitive U.S. market
  - AT&T sets its consumer mobile surcharges to recover the incremental charges for this traffic levied by foreign international carriers

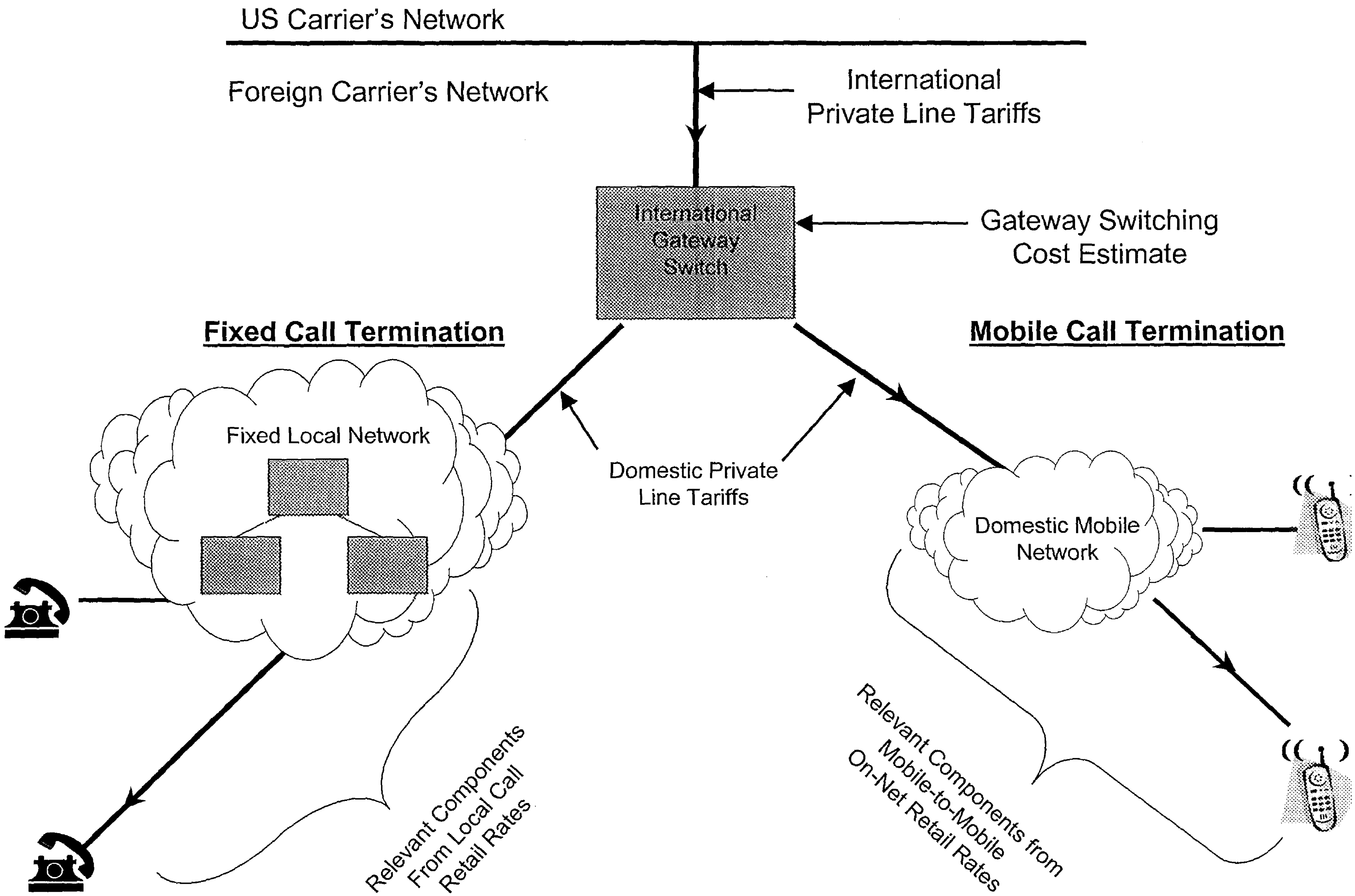
Required Commission Action

- Apply existing benchmarks to all traffic terminating on foreign mobile networks
  - Mobile termination rates exceed benchmarks in 39 countries
- Apply existing prohibitions on non-cost-based increases to this traffic
- Propose new benchmark rates for traffic terminating on foreign mobile networks in the FNPRM requested above

Revised Tariff Component Pricing (R-TCP)

- In the absence of any meaningful cost data, the 1997 Benchmarks Order used a TCP model as a cost ceiling on ITU recognized network components used for international termination
- Revised TCP (R-TCP) methodology uses same network components with updated cost ceilings
  - Int'l Trans and Gateway Switching no "longer a major component in the cost of delivering international service" ITU, 1996
  - Expands National Extension component to more closely model actual network configurations used to terminate calls
  - Includes model for mobile termination
  - Removes costs of retail service not used to terminate calls
- As the FCC found in the Benchmarks Order, any tariff-based analysis provides <u>very</u> <u>conservative</u> ceiling for costs to terminate international calls

Revised Tariff Component Pricing Methodology
Pricing Components



R-TCP Methodology
International Transmission

- Tariffs for international private line services used as a surrogate for international transmission costs
  - For most countries, a 2Mbps circuit is used. For selected countries, where rates are available and where overall traffic volumes justify a higher bandwidth, higher speed circuits are used
  - Rates taken from Tarifica 2003 data
  - 1997 Benchmark Order assumptions of 8,000 minutes/month/channel and 4:1 multiplexing used
  - Many carriers also provide international private lines at "off-tariff" rates that are not publicly available and typically a fraction of tariffed rates
    - Indicates public tariff rates for IPLs clearly above actual costs
    - Large increases in international capacity since 1997

R-TCP Methodology
Gateway Switching

- 1995 ITU-D Recommendation includes estimate for gateway switching ranging from 1.9 cents/minute to 4.8 cents/minute
  - Study far out of date and no longer a reliable estimate of a cost ceiling

- R-TCP estimates gateway switching costs at .50 cents/minute
  - Gateway switch functions are very similar to the "tandem" switching functions of domestic toll switches
    - FCC has established a default proxy ceiling for tandem switching of no greater than .15 cents/minute (47 CFR 51.513)
    - Under the CALLS plan, estimate for tandem switching <u>and</u> interoffice transmission <u>and</u> local switching is only .55 cents/minute
  - AT&T has negotiated rates lower than 1.9 cents/minute estimate for <u>all three</u> functions used in international call termination

R-TCP Methodology
National Extension
(National Transport and Local Distribution)

- **Domestic Private Line for National Transport**
  - Tariffs for domestic private lines used as a surrogate for high-speed domestic network infrastructure used to transport calls to local service areas for fixed calls, or to mobile service provider for mobile calls
  - Tariffs taken from 2003 Tarifica study
  - The highest tariffed bandwidth domestic private line was used in all cases. Speed ranged from 2Mbps to 155Mbps
  - The longest rate band distance, as filed in the tariff, was used as the average length of national transport
  - 1997 Benchmark Order assumptions of 8,000 minutes/month/channel and 4:1 multiplexing used

R-TCP Methodology
National Extension
Local Distribution - Fixed

- Tariffs for local phone calls used that include costs for both originating and terminating local calls
  - Tariffs taken from 2003 Tarifica study
  - If available, higher "business" and "peak" rates used
- Tariffed rates reduced by 50% as only network elements needed to terminate calls are appropriate for termination cost ceiling

R-TCP Methodology
Network Extension
Mobile

- On-net to on-net mobile tariffs include all network elements used to originate and terminate mobile calls
- Tariff-based calculation reduced by 50%, as only network elements needed to terminate calls are appropriate for termination cost ceiling
  - The justification of a 50% reduction for termination service is further validated by our conservative inclusion of a DPL component
- Rates generally taken from September 2003 Tarifica Mobile study
  - National usage rates
  - Generally available plans
  - No volume discounts
  - No connection or subscription fees
  - Mobile results from the cost-proxy model are consistent with existing LRIC studies that estimate mobile termination costs to be 4-7 cents/minute

Avoided Costs

- “The tariff rates used to calculate TCPs include costs associated with providing retail services to consumers which would not be included in cost-based settlement rates” Benchmark Order, para. 70
  - Because tariffed rates overstate network costs used to terminate international calls, R-TCP rates include an avoided cost discount to remove approximate retail costs
- Avoided Costs analysis results applied to initial R-TCP rates include discounts of 16% to tariffed components
  - Consistent with recent New Zealand 25th percentile discount of 16%
  - Singapore IDA has proposed a 40% discount for local leased circuits

Initial R-TCP Results - Fixed

Country	1997 Fixed TCP	1997 Fixed BM	A Int'l Trans	B Gateway Switch	C DPL	D Local Retail Rate	A+B+C+D 2003 Fixed R-TCP	(A+C+D) -16% + B 2003 Fixed R-TCP Minus Avoided Costs*
Brazil	27.80	19.00	1.22	0.50	0.27	0.80	2.79	2.42
Ecuador	10.30	19.00	4.21	0.50	0.95	1.22	6.88	5.86
Egypt	17.20	23.00	1.25	0.50	0.01	0.14	1.90	1.68
El Salvador	11.80	19.00	3.20	0.50	0.36	0.89	4.95	4.24
France	17.50	15.00	1.03	0.50	0.07	1.02	2.62	2.28
Germany	19.80	15.00	1.51	0.50	0.03	1.19	3.23	2.79
Guatemala	10.30	19.00	2.23	0.50	0.30	1.17	4.20	3.61
India	31.20	23.00	0.49	0.50	0.42	0.44	1.85	1.63
Italy	18.20	15.00	0.61	0.50	0.12	1.31	2.54	2.21
Japan	19.70	15.00	1.24	0.50	0.71	1.21	3.66	3.15
Kenya	42.60	23.00	4.17	0.50	1.61	0.89	7.17	6.10
Korea	12.80	19.00	3.00	0.50	0.30	0.55	4.35	3.73
Netherlands	9.80	15.00	0.98	0.50	0.02	1.60	3.10	2.68
Pakistan	26.70	23.00	4.99	0.50	2.05	0.35	7.89	6.71
Philippines	23.90	19.00	4.73	0.50	0.86	0.00	6.09	5.20
Poland	24.60	19.00	3.05	0.50	0.53	0.88	4.96	4.25
Spain	18.10	15.00	1.17	0.50	0.29	1.31	3.27	2.83
U.A.E.	7.70	15.00	2.60	0.50	0.64	0.00	3.74	3.22
U.K.	13.00	15.00	0.10	0.50	0.12	1.98	2.70	2.35
Venezuela	23.80	19.00	0.90	0.50	0.10	0.85	2.35	2.05
AVERAGE							4.01	3.45

* Avoided cost deduction removed from tariffed components: international transmission, DPL, and local retail rate.

Initial R-TCP Results - Mobile

			A	B	C	D	A+B+C+D	(A+C+D) -16% + B
Country (# Operators)	1997 Fixed TCP	1997 Fixed BM	Int'l Trans	Gateway Switch	DPL	National Retail Rate	2003 Mobile R-TCP	2003 Mobile R-TCP Minus Avoided Costs*
Brazil (2)	27.80	19.00	1.22	0.50	0.27	7.05	9.04	7.67
Ecuador (1)	10.30	19.00	4.21	0.50	0.95	10.00	15.66	13.23
Egypt (2)	17.20	23.00	1.25	0.50	0.01	2.04	3.80	3.27
El Salvador (2)	11.80	19.00	3.20	0.50	0.36	5.19	9.25	7.85
France (3)	17.50	15.00	1.03	0.50	0.07	7.11	8.71	7.39
Germany (4)	19.80	15.00	1.51	0.50	0.03	7.03	9.07	7.69
Guatemala (1)	10.30	19.00	2.23	0.50	0.30	2.28	5.31	4.54
India (1)	31.20	23.00	0.49	0.50	0.42	1.09	2.50	2.18
Italy (4)	18.20	15.00	0.61	0.50	0.12	5.76	6.99	5.95
Japan (3)	19.70	15.00	1.24	0.50	0.71	8.02	10.47	8.87
Kenya (1)	42.60	23.00	4.17	0.50	1.61	8.27	14.55	12.30
Korea (2)	12.80	19.00	3.00	0.50	0.30	2.05	5.85	4.99
Netherlands (4)	9.80	15.00	0.98	0.50	0.02	6.63	8.13	6.91
Pakistan (1)	26.70	23.00	4.99	0.50	2.05	0.87	8.41	7.14
Philippines (1)	23.90	19.00	4.73	0.50	0.86	1.66	7.75	6.59
Poland (3)	24.60	19.00	3.05	0.50	0.53	6.26	10.34	8.76
Spain (4)	18.10	15.00	1.17	0.50	0.29	5.58	7.54	6.41
U.A.E. (1)	7.70	15.00	2.60	0.50	0.64	2.86	6.60	5.62
U.K. (4)	13.00	15.00	0.10	0.50	0.12	2.84	3.56	3.07
Venezuela (1)	23.80	19.00	0.90	0.50	0.10	1.57	3.07	2.65
AVERAGE							7.83	6.65

* Avoided cost deduction removed from tariffed components: international transmission, DPL, and national retail (usage) rate.